

## Message Text

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AMEMBASSY TEHRAN

C O N F I D E N T I A L SECTION 1 OF 2 EC BRUSSELS 9421

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E.O. 11652: GDS

TAGS: ETRD, PFOR, EEC, IR

SUBJECT: EC/IRAN COOPERATION AGREEMENT - EC MEMBER STATES

INTENSIFY EFFORTS TO REACH AGREEMENT ON MANDATE TO UNDERTAKE  
NEGOTIATION

REF: (A) EC BRUSSELS 4488; (B) EC A-418; (C) EC BRUSSELS 2667

1. SUMMARY: FOR THE PAST FIVE MONTHS THE EC FOREIGN MINISTERS COUNCIL HAS BEEN AT AN IMPASSE OVER A MANDATE TO NEGOTIATE AN EC IRANIAN COOPERATION AGREEMENT. THIS IMPASSE IS EXPECTED TO BE BROKEN AFTER GISCARD'S TRIP TO IRAN. OFFICIALS HERE ARE HOPEFUL THAT THE COUNCIL WILL AGREE TO FORMAL NEGOTIATIONS BY YEAR END. BASED ON AN APRIL COMMISSION UNDERSTANDING WITH THE GOI ON THE PRINCIPLES FOR AN EC/IRAN TRADE AND COOPERATION AGREEMENT, THE EC WOULD AGREE ON NONPREFERENTIAL TRADE ARRANGEMENTS TO PROVIDE LONG-TERM ACCESS TO THE EC MARKET FOR SELECTED IRANIAN INDUSTRIAL PRODUCTS, INCLUDING REFINED PETROLEUM PRODUCTS. IT WOULD ALSO ASSIST IN IRAN'S INDUSTRIAL DEVELOPMENT. THE GOI, IN TURN, WOULD STRENGTHEN ITS TIES WITH THE EC AND SOME EXPECT, PURSUE ITS POLICY OF NON-PARTICIPATION IN ANY OIL EMBARGO.

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2. BACKGROUND: THE LIMITED EC/IRANIAN MFN TRADE AGREEMENT OF 1963 EXPIRED IN NOVEMBER 1973. IN LATE 1973 THE EC COUNCIL APPROVED IN PRINCIPLE AN IRANIAN REQUEST TO RENEGOTIATE THIS LIMITED AGREEMENT. THE GOI PARTICULARLY WANTED GREATER ACCESS TO THE EC MARKET. IN JANUARY 1974 THE COMMISSION OPENED EXPLORATORY TALKS, INDICATING TO THE GOI THAT A PREFERENTIAL TRADE AGREEMENT WAS NOT POSSIBLE. THE COMMISSION, HOWEVER, WAS WILLINGLY TO CONSIDER WAYS TO USE ITS GSP SYSTEM TO INCREASE IRAN'S RANGE OF EXPORTS TO THE EC. THE GOI, HOWEVER, PRESSED HARD FOR A PREFERENTIAL AGREEMENT, AND AT ONE TIME, ALONG WITH THE COMMISSION, THE U.K. WAS THE ONLY MEMBER STATE HOLDING OUT AGAINST PREFERENCES. THE GOI, WITH STRONG SUPPORT FROM THE FRG, PARTICULARLY WANTED PREFERENTIAL ACCESS FOR ITS FUTURE REFINED PETROLEUM PRODUCTS (R.P.P.). AFTER ARDUOUS EXPLORATORY TALKS, THE COMMISSION PROPOSED TO THE EC COUNCIL IN MARCH 1976 A MANDATE TO OPEN NEGOTIATIONS FOR A TRADE AND ECONOMIC COOPERATION AGREEMENT. THIS AGREEMENT WOULD PROVIDE FOR A "PRIVILEGED", BUT NOT PREFERENTIAL, EC/IRAN RELATIONSHIP, (SEE REF C).

3. BREAKTHROUGH IN EXPLORATORY TALKS: EC COMMISSION, COUNCIL AND PERMDEL OFFICIALS TELL US THAT A BREAKTHROUGH CAME IN THE DISCUSSION WHEN COMMISSIONER GUNDELACH MET WITH GOI MINISTER OF ECONOMY AND FINANCE ANSARI IN APRIL 1976. THE FOLLOWING GENERAL PRINCIPLES WERE AGREED UPON: (1) THE EC WOULD SUPPORT IRAN'S LONG-TERM INDUSTRIALIZATION BY PROVIDING EC MARKET ACCESS FOR CERTAIN INDUSTRIAL AND PROCESSED GOODS, INCLUDING R.P.P.; AND (2) THE EC WOULD STRIVE FOR A CLOSER RELATIONSHIP IN SUCH AREAS AS TRADE, ECONOMIC COOPERATION AND INDUSTRY. THIS AGREEMENT WOULD UNDERLINE A SPECIAL EC/IRANIAN RELATIONSHIP BY GOING FURTHER THAN OTHER EC NON-PREFERENTIAL COOPERATION AGREEMENTS SUCH AS THE RECENT EC/CANADIAN AGREEMENT. ANSARI IN TURN REPORTEDLY SAID THAT IRAN HAD NOT PARTICIPATED IN THE 1973 OIL EMBARGO AND THE GOI SOURCES INTERPRET THIS STATEMENT AS PRESAGING A FIRM GOI COMMITMENT TO CONTINUE TO PROVIDE CRUDE OIL TO THE EC, SHOULD THE EC/IRAN AGREEMENT BE SUCCESSFULLY NEGOTIATED.

4. MEMBER STATES IMPASSE CONTINUES: DESPITE THIS UNDERSTANDING ON PRINCIPLES, SEVERAL MEMBER STATES, ESPECIALLY FRANCE AND DENMARK, HAVE CONTINUED TO BLOCK COUNCIL AGREEMENT ON A CONFIDENTIAL

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NEGOTIATING MANDATE. ODD AS IT MAY SEEM, THESE COUNTRIES INDICATED THEY WERE STILL UNDER BILATERAL GOI PRESSURE TO OFFER TRADE PREFERENCES (SEE BELOW). THUS, DESPITE INTENSIVE WORK IN RESTRICTED COUNCIL AND WORKING GROUP MEETINGS, AGREEMENT COULD NOT BE REACHED ON A COUNCIL MANDATE.

5. EC AGREEMENT EXPECTED: JUST BEFORE THE SEPTEMBER 20 EC FOREIGN MINISTERS COUNCIL MEETING, PERMDEL SOURCES TELL US

THAT DENMARK AGREED TO GO ALONG WITH THE PROPOSED COMMISSION NEGOTIATING PRINCIPLES. THIS MADE FRANCE THE SOLE HOLD-OUT FOR TRADE PREFERENCES. OUR SOURCES EXPECT FRANCE TO ALSO GO ALONG WITH THE MAJORITY ONCE GISCARD COMPLETES HIS TRIP TO TEHRAN IN EARLY OCTOBER. IN FACT, OUR SOURCES SPECULATE THAT THE OCTOBER 18--19 FOREIGN MINISTERS MEETING WILL LIKELY REACH AGREEMENT ON THE ABOVE PRINCIPLES AND WILL INSTRUCT THE COUNCIL WORKING GROUP TO PULL TOGETHER THE SPECIFICS OF AN EC NEGOTIATING MANDATE. MEMBER STATES ARE EXPECTED TO SEEK A SPECIFIC NEGOTIATING MANDATE BECAUSE OF THE SUBSTANTIAL TRADE IMPACT OF THE PROPOSED AGREEMENT. OUR SOURCES ARE HOPEFUL THAT THE MANDATE CAN BE AGREED UPON BY THE NOVEMBER OR DECEMBER COUNCIL MEETING. THE COMMISSION HAS BEEN PRESSING FOR PROMPT AGREEMENT BECAUSE IT FEARS THE GOI'S PATIENCE WILL RUN OUT AND THE OPPORTUNITY FOR A NON-PREFERENTIAL AGREEMENT WILL BE LOST.

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6. PROVISIONS OF AGREEMENT: THE FRAMEWORK OF THE PROPOSED AGREEMENT WAS OUTLINED IN REF C. THE SPECIFIC TRADE ARRANGEMENTS REMAIN VAGUE BUT OUR SOURCES INDICATE THAT THE COUNCIL WORKING GROUP HAS FOCUSED ON WAYS TO MEET IRAN'S REQUESTS FOR INCREASED MARKET ACCESS, ESPECIALLY FOR R.P.P. UNDER THE EC GSP SYSTEM, THE GROUP SUGGESTS PROVIDING IMPROVED ACCESS TO ITS MARKET FOR

10 MILLION TONS ANNUALLY OF R.P.P. AND FOR SOME PROCESSED FOODS, SOME CHEMICAL PRODUCTS, ALUMINUM, COPPER (THE DEGREE OF PROCESSING IS UNDETERMINED) AND SELECTED INDUSTRIAL PRODUCTS (SEE REF B). IRAN ALSO WANTS TO INCLUDE TEXTILE PRODUCTS AND FOOTWEAR BUT THESE REQUESTS ARE BEING FIRMLY RESISTED. THE MEMBER STATES, WE ARE TOLD, WANT TO PRESERVE THE AUTONOMOUS AND NON-CONTRACTUAL CHARACTER OF THEIR GSP SYSTEM. AT THIS POINT, HOWEVER, OUR SOURCES ARE NOT CLEAR ON HOW, ON THE ONE HAND, THE EC WOULD ASSURE IRAN OF ACCESS OF SELECTED PRODUCTS, AND, ON THE OTHER HAND, NOT DISTORT THE GSP SYSTEM OR JEOPARDIZE ITS AUTONOMOUSNESS. THE WORKING GROUP, FOR EXAMPLE, IS CONSIDERING REMOVING THE EC DUTY ON IMPORTS OF R.P.P. AND ESTABLISHING A QUOTA FOR IRAN. HOW SUCH TARIFF REDUCTIONS WOULD BE GENERALIZED REMAINS TO BE SEEN.

7. PROMOTION OF IRAN'S INDUSTRIALIZATION: BESIDES GRANTING  
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ACCESS TO INDUSTRIAL PRODUCTS, AS INDICATED IN REF C, THE EC INTENDS TO USE A JOINT COMMISSION TO PROVIDE THE FRAMEWORK FOR EXPANDED PRIVATE INVESTMENT, JOINT VENTURES AND TRANSFER OF TECHNOLOGY. CURRENTLY, THE EC IS NOT CONSIDERING ADDITIONAL ARRANGEMENTS SUCH AS GUARANTEES AGAINST POLITICAL RISK. THE CLOSER LONG-TERM RELATIONSHIP COMING FROM THE AGREEMENT IS EXPECTED TO ACT AS A CATALYST IN PROMOTING INVESTMENT IN IRAN. PERMDEL OFFICIALS ADD THAT THERE HAS BEEN NO DISCUSSION OF POSSIBLE GUARANTEES FOR IRANIAN INVESTMENTS IN THE EC.

8. MEMBER STATE CONCERNS: OUR SOURCES SAY THAT, THOUGH CURRENTLY EIGHT MEMBER STATES GENERALLY FAVOR THE COMMISSION PROPOSAL, REAL CONCERNS REMAIN. FOR EXAMPLE, SEVERAL MEMBER STATES NOW HAVE EXCESS PETROLEUM REFINING CAPACITY AND ARE FEARFUL THAT IMPORTS FROM IRAN WOULD AGGRAVATE THIS SITUATION. THE COMMISSION AND SOME MEMBER STATES ARGUE THAT IT WILL BE AT LEAST FIVE YEARS BEFORE IRAN WOULD HAVE A SUBSTANTIAL EXPORT CAPABILITY OF R.P.P. BY THAT TIME THE GROWTH OF EC DEMAND IS EXPECTED TO BE ABLE TO ABSORB THE PROPOSED IMPORTS. MEMBER STATES ARE ALSO AFRAID OF IRANIAN COMPETITION IN OTHER AREAS, ESPECIALLY AT A TIME WHEN THEIR OWN INDUSTRIES ARE DEPRESSED. NEVERTHELESS, ALL MEMBER STATES BELIEVE THAT THE BENEFITS OUTWEIGH THE RISKS. DANISH PERM DEL OFFICIALS SAY, FOR EXAMPLE, THAT THE IMPLICIT GOI ASSURANCES OF A CONTINUED SUPPLY OF CRUDE PETROLEUM IS AN OVERRIDING CONSIDERATION. IN ADDITION, THE DANES LOOK TOWARD AN EXPANDED EXPORT MARKET IN IRAN IN THE 1980'S AND WOULD LIKE TO CEMENT THE LONG-TERM RELATIONS THAT WOULD ASSURE EC ACCESS TO THAT MARKET.

9. POSSIBLE GOI RESERVATIONS: OUR SOURCES ARE NOT CERTAIN OF THE SHAH'S VIEWS ON THE PROPOSED AGREEMENT. THEY SAY THAT THE REAL REASON FOR THE FRENCH HOLD OUT, DESPITE THAT ANSARI

AGREEMENT IN PRINCIPLE, IS FRENCH BELIEF THAT THE SHAH HAD RESERVATIONS ABOUT A NON-PREFERENTIAL AGREEMENT. IN ADDITION, THE SPECIFICS REGARDING PRODUCTS, DUTY REDUCTIONS AND QUOTAS HAS YET TO BE WORKED OUT. IRAN, FOR WXAMPLE, WANTS A MUCH LONGER LIST OF PRODUCTS FOR GSP CONCESSIONS THAN THE EC IS PREPARED TO GIVE. AS A RESULT, TOP COUNCIL SOURCES PREDICT THAT ACTUAL NEGOTIATIONS WILL BE LONG AND DIFFICULT.

10. COMMENT: BECAUSE OF A LACK OF AGREEMENT ON THE PRINCIPLES,  
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MEMBER STATES HAVE NOT GOTTEN DOWN TO SPECIFICS. AS A RESULT, A NUMBER OF QUESTIONS REGARDING EC TRADE ARRANGEMENTS REMAIN UNANSWERED. OFFICIALS HERE ARE IRRITATED AT FRANCE'S OBSTINANCY. THEY BELIEVE GISCARD WANTS TO DEMONSTRATE TO THE SHAH THAT AMONG THE NINE ONLY FRANCE IS WILLING TO STAND UP FOR IRAN'S INTERESTS. ALL OUR SOURCES EXPECT THIS IMPASSE TO BE BROKEN SHORTLY SO THAT THE COUNCIL WORKING GROUP CAN BEGIN TO DRAW TOGETHER THE SPECIFICS OF A NEGOTIATING MANDATE. SUCCESSFUL COMPLETION OF THE NEGOTIATIONS IS, OF COURSE, ANOTHER MATTER.  
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